

## **Historic, Archive Document**

Do not assume content reflects current scientific knowledge, policies, or practices.



---

UNITED STATES DEPARTMENT OF AGRICULTURE  
AGRICULTURAL ADJUSTMENT ADMINISTRATION

---

# Industry's Production Policies and the Farmer

**Highlights:** While industry reduced production 59 percent and kept up prices within 16 percent of what they had been in 1929, the farmer reduced production for sale only 6 percent from 1929 to 1932. As a result farm prices dropped 63 percent.

Since 1932, under the A. A. A. program of production control, farm production as a whole has been reduced about 5 percent and is about 10 percent less than it was in 1929.

Farm prices, farm buying power, and total farm income have increased since 1932.

Total farm income in 1932 was \$4,328,000,000; in 1933 it was \$5,051,000,000; and in 1934 it was estimated at 6 billion dollars. The latter two years include benefit payments.

Industry could expand production with great social benefit but continues to maintain its prices even though its production is severely restricted. Agriculture could not expand production of staples with any lasting social benefit, but, previous to the launching of the adjustment program, was continuing its production, on a high level, regardless of markets.

As matters now stand in 1935, further improvements in farm income apparently must depend upon industrial recovery. In other words, increased farm income depends upon increase of consumer buying power, and this in turn depends largely upon the number of jobs and the size of the pay envelopes.

## I. Agriculture's Distress Affects Industry

OVER a span of 100 years farmers swarmed westward over America. Industry took manufacture from the homes and centered it in factories. Steamships and railroads brought world markets closer. The settlement of the American West gave access to the cheapest food in the world. World trade multiplied nearly 35 times from 1830 to 1930. American industry grew with European, and farming kept pace with industry. American cities multiplied and grew in size; free immigration swelled the population; and the farmer found no lack of mouths to feed. Agriculture had its growing pains, but was strong and healthy.

During this period industry, too, flourished. Both agriculture and industry found it an easy matter to sell in world markets.

*Prepared in the Division of Information.*

However, industry at home was protected by a tariff on foreign goods, while for agriculture world prices, in general, prevailed even in home markets. Industry, as a result, developed and practiced methods that would protect its prices both at home and abroad.

When both foreign and domestic markets were restricted, industry knew how to adjust itself. The resulting curtailment stopped machines, closed factories, slashed pay rolls, and forced millions of men into the streets. Without wages these unemployed could not buy as before, either from agriculture or industry but, by means of restricted production, industry managed to hold its prices on a fairly firm basis.

### **Agriculture Becomes Ill**

After its burst of prosperity caused by the World War, agriculture fell ill. The boom of war days had caused farmers to plow up 40 million acres of grass land. Land values had gone up, and mortgage debts had more than doubled from 1910 to 1920.

After the war automobiles and tractors replaced horses. Thirty-five million acres of land that had produced food for work stock were no longer needed but still were planted.

From 1925 to 1929 it required about 287 million acres of land to produce food for the American people. During the depression years people bought less, and 281 million acres was enough to produce all they would buy, even at very low prices. In 1932-33 it required 5 million acres less land to produce for the needs of industry than were needed during 1925-29. The products from about 20 million acres were no longer needed in the export trade. Yet all this land continued to produce to swell surpluses unsalable even at sacrifice prices.

The situation for the farmer was made still worse by a decided slowing up of population growth. In 1922, not only was the restricted immigration law passed, but the birth rate, which had been falling slowly for a century, declined even more sharply. Instead of having  $1\frac{1}{4}$  million new customers every year, as was true from the Civil War, the farmer since 1922 has had only  $\frac{1}{2}$  million persons to increase his market each year.

### **Foreign Markets Restricted**

American farmers always had shipped large quantities of products to Europe because they could produce more cheaply and because America owed Europe debts which were paid in part by shipping cheap farm stuffs abroad. When the war was over the American farmer did not have cheap foodstuffs to ship any more. Besides, America no longer owed Europe money. Instead, Europe owed America a great deal of money.

The farmer's world market was in serious danger, especially since Europe, with the recent war in mind, began trying to live at home. Some of the foreign foodstuffs Europe needed could be bought cheaper from Australia, Canada, and Argentina—expanding farm countries with low cost of production. On top of all this, America increased its tariffs, which meant that it became harder for Europe to sell this country manufactured goods and as much harder for us to sell her farm stuffs.

In 1920 the American farmer faced the loss of his export markets, which had formerly absorbed about 17 percent of his total production. One fact saved him temporarily. Individual Americans increased their foreign investments  $7\frac{3}{4}$  billion dollars from 1921 to 1928. Farm exports did not break until these loans stopped. American tariffs were boosted again; but meanwhile Europe and the world had expanded farm production until American farm stuffs were no longer in such demand.

### **Prices Low—Debts High**

Farm prices broke sharply in 1930 and kept on falling through 1932. The farmer's debts were at a high level. His taxes had steadily mounted until they were more than twice as high as before the war—yet his dollar would buy only half as much. One farmer out of ten lost his farm from 1930 to 1933.

### **Trade and Employment Declines, Banks Close, Loans Foreclosed**

Since farmers made up one-fourth of America's population, their troubles affected merchants in small towns, and then the large industrial centers. At the depth of the depression 4 million men walked the streets because farmers could no longer buy. Farm income in 1932 was less than half what it had been in 1929. In towns of less than 5,000 population 1,705 banks failed in 1931; in 1932, 1,129 more followed. As loans were foreclosed and farm income dried up, banks and life-insurance companies faced heavy losses.

The migration from farm to city, which has been a cause of concern to Americans for the last 50 years, reversed itself in 1930 as industrial depression struck. During the past 5 years, farm population increased by  $2\frac{1}{4}$  million, partly because people have been driven from the cities by the depression. Industry, which was not organized in such a way as to provide a continuing abundance, did not take care of the people it turned loose on society. Willingly or unwillingly, agriculture accepted them at a time when farm income already was low.

## Farmer's Share of Consumer's Dollar Shrinks

In 1913, the farmer got 56½ cents of each dollar spent by city consumers for 10 leading food products; in 1929, he got 50⅙ cents of it; in 1934, he got about 38½ cents. Distribution costs are usually more fixed and less elastic than the cost of raw products. For that reason the farmer suffered unduly when food and clothing prices went down. For instance, when the share of bread prices received by bakers, millers, railways and wholesale and retail stores dropped 15 percent from 1928 to 1932, the share received by the farmer dropped 65 percent.

## II. Industry Curtails Production

While the farmer was in effect playing Santa Claus to the American people by producing without limit and selling at bargain prices from 1930 to 1932, industrial production was cut 59 percent from 1929 to 1932. Capital and labor resources were "plowed under" on a big scale in order to keep prices up. As a result industrial prices fell only 16 percent during this period.

INDUSTRIAL REDUCTION AND PRICES, 1929-32

Industry	Reduction in produc- tion	Reduction in price
	Percent	Percent
Iron and steel.....	83	20
Construction.....	60	16
Cement.....	85	18
Auto tires.....	70	33

A great deal has been said about taxing the American people to finance the reduction in agricultural production. How has the industrial curtailment been financed? In several ways. More than 10 million men were turned out—to live as best they could. They paid a large part of the price by exhausting their savings and lowering their standards of living. Industry paid a portion through its lessened net income. The United States Government is financing a large part by spending billions in relief. Labor that industry could not pay because production was curtailed is now largely paid by the American people as a whole.

### Effect of Industrial Curtailment on Farmer

While industry reduced production 59 percent and kept up prices within about 16 percent of what they had been in 1929, the farmer reduced production for sale only 6 percent from 1929 to 1932. Yet his prices dropped 63 percent.

This high level of industrial prices and the low level of farm prices put the farmer in a desperate situation and dislocated the whole national economic machine. The farmer was facing ruin because of the high price level for the things he had to buy and his own low selling price level. The farmer's distress was reflected in his reduced buying power. His dollar would buy only half as much as before the war. In a vain attempt to keep on buying as much as ever he frantically tried to produce twice as much. If it took 2 bushels of wheat to buy what 1 bushel formerly bought, then all the farmer could do, alone and unaided, was to try to produce 2 bushels of wheat instead of 1.

In 1922-23, when cotton sold for  $22\frac{8}{10}$  cents per pound, the farmer could trade two-thirds of a bale of cotton for a double wagon. In 1931-32, when cotton sold for  $5\frac{7}{10}$  cents per pound, it required nearly four bales of cotton for the farmer to trade for a double wagon. Wheat in 1922<sup>1</sup> sold for  $96\frac{6}{10}$  cents<sup>2</sup> per bushel and  $124\frac{6}{10}$  bushels would buy a double wagon. In 1932,<sup>1</sup> wheat was priced on the farm at  $37\frac{9}{10}$  cents<sup>2</sup> per bushel and it took nearly 300 bushels to buy a double wagon. The comparisons hold for a variety of manufactured products.

### III. Agriculture Tries Production Control, Too

From 1929 to 1932 farm production for sale was cut only 6 percent. Farm prices dropped 63 percent. Farm buying power dropped nearly 50 percent.

Since 1932, under the A. A. A. program of production control, farm production as a whole has been reduced about 5 percent and is about 10 percent less than it was in 1929.

Farm prices, farm buying power, and total farm income have increased since 1932.

Total farm income in 1932 was \$4,328,000,000; in 1933 it was \$5,051,000,000, and in 1934 it was estimated at \$6,300,000,000. The latter 2 years include benefit payments.

Wholesale prices of farm products in 1932 were half what they were in 1929. They were 60 percent of the 1929 prices in the year 1934.

The farmer took in considerably more money in 1934 than in 1932 and his money would buy much more than it would in 1932. This improvement was due in part to drought and in part to the A. A. A. and other recovery measures.

---

<sup>1</sup> Year beginning July 1.

<sup>2</sup> Weighted average farm price.

## **Control Program Mitigated Effects of Drought**

No one denies that drought is an effective surplus remover, but it does not reduce evenly, and it makes no benefit payments. Where would the farmer have been in 1934, with a drought and no adjustment programs? He would have had lower prices, lower total income, and lower buying power—how much lower it is hard to say. In the heart of the drought country he would have had no income at all, no price, no buying power whatever. He would have been ruined, and most of the folks in town along with him. The A. A. A. plan calls for crop insurance, distributed through benefit payments earned by cooperating to improve agriculture and the Nation as a whole.

Had there been a drought without the adjustment program in effect, the shortage of grain and hay per animal consuming unit would have been greater than it actually was. The planting of emergency forage crops on land kept out of basic-crop production largely offset the loss of corn caused by reduction programs and the drought.

Adjustment in livestock numbers further eased the drain on hay and feed-grain supplies under drought conditions. In addition to the reduction in hog numbers, the drought-relief purchase of cattle by the Government in 1934 also served to reduce corn requirements during the 1935 feeding season. Conservative feeding induced by the Government's corn-loan program, which involved the sealing of about 270 million bushels of corn, may have "saved" as much as 25 million bushels of corn for later use.

## **IV. Further Farm Recovery Depends on Industrial Recovery**

In general, people could use many more manufactured goods than they buy, and they would buy many more if they had the money. The same does not hold true of farm products. The human stomach can hold only so much. A rich man cannot eat more ham and eggs than a poor laborer. Given plenty of money, people will not buy more food but fancier food and food of better quality. Not even sacrifice prices that all but ruined farmers in 1930-32 could tempt Americans to eat more.

This general difference between industry and agriculture is important. It suggests that industry is in a much better position to produce freely than is the farmer. If industry produces at full capacity, markets are assured if prices are reduced enough. The net income of industry actually might increase.

Agriculture has taken steps toward attaining balanced abundance. But this goal cannot be achieved fully for the Nation as a whole until industry aims toward the same objective.

Since there is a fairly definite limit to the size of the human stomach, all the farmer gets from increasing production beyond a certain point is a much lower price and the privilege of helping the middlemen and consumers. Middlemen profit by a larger volume of business because their margins tend to stay about the same.

Industry could expand production with great social benefit, but continues to maintain its prices even though its production is restricted severely. Agriculture could not expand production of staples with any lasting social benefit, but, previous to the launching of the adjustment program, was continuing its production, on a high level, regardless of markets.

### **How Much Return Does the Farmer Deserve?**

Everyone will agree that all should get a fair price or return or income, but few will agree on what is "fair" in any given case. What the farmers' share should be nobody knows, but everyone would agree that it was too low in 1932, and most would agree that it still is too low.

The A. A. A. has set up a rough, practical formula for deciding in the interests of society what "fair" price is for farmers. The Agricultural Adjustment Act states that adjustments of production and benefit payments may be continued until the purchasing power of the farmer's dollar is equal to what it was before the war (1909-14). The purchasing power of the farmer's products in March 1935 was 84 percent of pre-war purchasing power, as compared with 55 percent in March 1933. It was 72 percent in the case of cotton; 76 percent in the case of wheat; and 88 percent in the case of hogs. The farmer in February 1935 received  $45\frac{6}{10}$  cents out of the consumer's dollar paid for 10 leading food products. Before the war, in 1913, he received  $56\frac{1}{2}$  cents of it.

### **Further Reduction Would Not Help Farmer Much**

Drought and A. A. A. have made reductions in surpluses. Farm prices, income and buying power have been helped a great deal. Farmers are not back to "parity" prices, however.

Will sharper reductions the next few years turn the trick? In the opinion of the Agricultural Adjustment Administration the answer is "No." If production is kept from increasing from present levels it is believed that the remainder of price and income and purchasing power improvement must come from industrial recovery.

There is no real scarcity of farm products as measured by effective demand. To carry reduction to the point where supplies were less than enough to supply the American people and fill such markets abroad as are available would be questionable both economically and morally.

On the other hand, to remove all restrictions doubtless would send farm prices into another nose dive and again seriously threaten the farmer and the Nation. A return to unlimited wheat crops would mean that another huge carry-over would be built up, the price would drop to ruinous levels, and the farmer would lose the gains he has made. The same is true of most farm products.

The farmers could return to conditions such as existed in 1932, with a complete lack of adjustment. Such a plan would work in the long run if the farmers and the Nation were willing to pay the cost. This course eventually would bring agriculture and industry into some kind of balance again, but it would prolong the depression, leave many farmers destitute, and weaken all of them.

The present agricultural adjustment program does not aim to cure all ills at one stroke. But it is designed to help farmers to do together what they cannot do as individuals, and start agriculture on a sound long-time land-use program.

As matters now stand in 1935, further improvements in farm income apparently must depend upon industrial recovery. In other words, increased farm income depends upon increase of consumer buying power, and this in turn depends largely upon the number of jobs and the size of the pay envelops.

#### SUGGESTED REFERENCES

The following publications may be secured, without charge, from the sources below as long as supplies are available:

- "Achieving a Balanced Agriculture", G-20; Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C.
- "Underconsumption of Goods—A Challenge to the Nation", G-30; Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C.
- "The Problem of Long-time Agricultural Adjustment", address by H. R. Tolley, January 31, 1934; Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C.
- "The Need for a Flexible Industrial Price Policy", by Louis H. Bean; Bureau of Agricultural Economics, United States Department of Agriculture, Washington, D. C.
- "America Must Choose Its Course in Foreign Trade", G-45; Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C.